

Mr. Dan King  
VP, Engineering & Asset Reliability  
TransCanada Pipelines Limited  
450 1<sup>st</sup> Street SW  
Calgary, AB T2P 5H1  
Facsimile: 403-920-2417

Dear Mr. King:

**TransCanada Pipelines Ltd. (TransCanada or the Company) Compliance with Technical Standards**

On 1 May 2012, the National Energy Board (NEB or Board) received a submission from a then employee of TransCanada (Complainant) outlining allegations of regulatory non-compliance against TransCanada. The Board immediately initiated actions to investigate these allegations, which, in the view of the Board, do not represent immediate threats to the safety of people or the environment. As a part of its investigation, on 22 June 2012, the Board met with TransCanada to discuss the Complainant's allegations, and requested at that time, information related to the Company's internal investigation relating to its compliance with technical standards and procedures. This information was submitted by TransCanada to the Board on 18 July 2012.

After review of this information, the Board notes that many of the allegations of regulatory non-compliance identified by the Complainant were verified by TransCanada's internal audit. TransCanada has proposed remediation measures to address verified regulatory non-compliances, and has indicated that these remediation measures have either been completed, or are in the process of being implemented. With respect to these remediation measures, the Board is conducting further compliance verification activities, including a focused audit and inspections to evaluate adequacy of the measures, identify any potential non-compliance in TransCanada's Integrity Management Program, and determine any corrective actions that may be required.

In addition to examining TransCanada's Integrity Management Program, the audit and associated inspections will focus on, among other things:

- Confirmation that TransCanada's practices around welding inspections and non-destructive examination (NDE) meet NEB requirements to be performed by a certified, independent third party reporting directly to TransCanada;
- Examination of the revisions TransCanada has made to its internal engineering guidance and determination as to whether or not it meets NEB requirements;
- Determination of what specific remediation measures have been implemented based on the findings in TransCanada's internal audit;
- Determination of whether or not TransCanada's revised inspection processes meet the requirements set out in the *Onshore Pipeline Regulations, 1999*;

- Evaluation of the new training program for inspectors on new non-destructive examination procedures to determine its adequacy; and
- Review of the job description for the new Quality Assurance/Quality Control Manager and confirmation of their responsibilities.

The Board is concerned by TransCanada's non-compliance with NEB regulations, as well as its own internal management systems and procedures. Pipeline safety is of paramount importance to the NEB, and it will take all available actions to protect Canadians and the environment. The Board requires pipeline companies to anticipate, prevent, manage and mitigate potentially dangerous conditions associated with their pipelines and will take appropriate action when they do not.

Should the NEB audit and inspections result in the finding of residual or additional non-compliances, the Board will not hesitate to impose appropriate corrective actions.

Yours truly,

Sheri Young  
Secretary of the Board

cc: Mr. R. Girling, President and Chief Executive Officer  
Mr. D. Wishart, Executive Vice President, Operations & Major Projects